



International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 21 • 2017

Digital Financial Inclusion is a Need of the Hour: An Investigation Amongst Bank Account Holders in Vellore District of Tamil Nadu, India

S. Divya Meena¹, M. Sriram² and N. Sundaram³

¹Research Scholar, School of Information Technology and Engineering, VIT University, Vellore- 632 014, Tamil Nadu, India. Email: sdivya.meena2017@vitstudent.ac.in

²Research Associate, School of Social Sciences and Languages, VIT University, Vellore 632 014, Tamil Nadu, India. Email: sriram89.m@gmail.com

³Professor and Head, Department of Commerce, Research Associate, School of Social Sciences and Languages, VIT University, Vellore 632 014, Tamil Nadu, India. Email: nsundaram@vit.ac.in

ABSTRACT

This study investigates the status of digital financial inclusion in Vellore district of Tamil Nadu, India amongst bank account holders. Taken into consideration the infinite population as whole population and bank account holders as study population, a sample size of 300 was derived and they have access to digital financial products and services. Questionnaire and interview schedule was used as data collection tool. Spearman's rho correlation was used for data analysis. There was a very strong positive relationship identified between age and mobile banking, and between income and internet banking. Concern about safety and security was the major reason for occasional usage of digital platform and lack of frequent income was the major reason for non-usage of digital platform. It was suggested that digitalization can be made cost-effective and simple to facilitate vulnerable such as old age people, women and illiterates.

Keywords: Digital; financial inclusion; banking products and services; Vellore.

1. INTRODUCTION AND RESEARCH PROBLEM

This study focuses on the status of digital financial inclusion in the study area amongst bank account holders. One of the global technology giants Mr. Bill Gates is a major motivation behind financial inclusion in the digital mode in India. He has kickstarted the need of digitalization in the financial system through

a panel discussion in New Delhi on December 2015. He assured that India will surpass all the nations in the world by means of digitalization in the financial system with industrial collaborations. Statistically, India has 52 percent of bank accounts opened out of which 42 percent are inactive. Here, only the bank account percentage is known whereas the number of bank account holders became unclear after Pradhan Mantri Jan Dhan Yojana. Through converting all financial transactions from conventional to digital mode, it will be easy to identify the duplication of bank accounts and the number of bank account holders will be known.

2. REVIEW OF LITERATURE AND RESEARCH GAP

The Indian neighbouring countries like China have started their digital evolution a century ago whereas India stepped into digitalized form a decade ago. Achievement of financial inclusion is slowed down due to the delayed transaction and ineffective cost. People under high-income slab do not have any problem in spending on digitalized mode of truncations whereas it is questionable for middle and lower-middle-income people (Zhou et al., 2015).

In developing nations like India, the usage of mobile phones was increased so a study was undergone by Kumar and Mubota (2012) in developing countries on the usage of mobile phones as a digital platform for financial transactions. It was found that the usage of mobile phone for communication has drastically increased whereas, in the case of financial transactions, it is only 2 percent in India, reported by World Bank. The role of Automated Teller Machines in India has become crucial after an increase in a number of bank accounts whereas one-third of the machines are found non-functional, reported by RBI Deputy Govenor SS Mundra.

The requisite of technology and digitalization has transformed many transactions delivered on time at any place whereas the affordability by means of cost and procedure is still lacking amongst vulnerable such as women, old age, and illiterates (Radcliffe & Voorhies, 2012). Finance Minister of India addressed in a panel discussion in 2016 stated that the charges levied for a transaction are about one-fifth of the transaction amount. Indians generally spend the meager amount in their daily life like Rs.100 or Rs.200 per day in which a charge is levied by the bank after exceeding the transaction limit (Buckley & Malady, 2015).

It is so hard for banks and the RBI to create demand to the digital financial transaction so that customers will get benefitted through the anytime transaction. It is a mandate for a new regulatory to take care on the achievement of digital financial inclusion, which will happen when people totally trust and transact only in formal financial institutions.

Peric (2015) identified through his study that it is widespread in the usage of mobile devices in developing nations like India and it can be affirmed as core instruments for the digital financial transaction. Mobile devices comprise mobile phones both smartphone and essential and tablet computers, through which a person can transact through a bank account registered for mobile banking, which is subject to network connection and transaction cost, irrespective of geographical location or type of institution. Developing countries can minimize recurring expenses such as salary, electricity expenses and rent to the building, by offering digital products and services and eliminate brick and mortar system (Gopalan and Kikuchi, 2016).

Kenya transacts 99 percent of its mobile payments by M-Pesa, in India, the usage of PayTM is gradually increasing wherein most of the shops, people are provided services through PayTM. But, due to slow internet connectivity and interruption in connection, people skip digital mode and go for the conventional

mode of payment. The prime reason for digitalization is for the instantaneous transaction and lessened cost. But it has become complex to old age people instead of comforting them.

Banking sector can be enhanced by efficiently connecting with information and communication technology. In the current scenario, an increase is found in cashless transaction but it is not so efficient, for which, the percentage of mobile banking is a proof in India and it was initiated only in 2011 (Sharma, 2016). There is a chance for network providers to outperform formal financial institutions like bank and post offices through digital platform using mobile devices (Yawe and Prabhu, 2015).

It is found on the one hand that the government of India and the reserve bank of India are facilitating people to open zero based account to transform from unbanked to banking. On the other hand, global giant corporate like Bill Gates through his foundation donates millions of dollars to bring in all the people into formal financial stream. These activities are highly welcomed in India however the population is still financially excluded because they never accessed their bank account after being opened.

From the lights of the above literature, it is found that the technology in banking sector is not wide spread for old age in the study area, which needs to be addressed. People who are illiterate usually seek others help for their financial transactions. For such transactions, they reveal their entire transaction credentials to a third-party, which leads to misuse of account.

3. OBJECTIVE OF THE STUDY

This study delves on the usage status of digital financial products and services to achieve financial inclusion in the study area amongst bank account holders. Furthermore, the reasons for infrequent usage are also studied amongst respondents.

4. METHODOLOGY

From the study population of bank account holders in the Vellore district, a sample of 300 was selected through a derivation from Cochran (1977) by assigning margin of error as 0.0566 and population proportion as 0.5. This study is descriptive and inferential in nature. The data was collected through questionnaire and interview schedule. The secondary data was excerpted from websites and reports of government and banks, e-journals, e-papers and e-books. This study used variables such as Automated Teller Machine, internet banking, mobile banking, financial service kiosk, National Electronic Funds Transfer, Real-Time Gross Settlement System and Immediate Payment System. Additionally, demographic variables were used in this study such as gender, age, educational qualification, income and area of residence. Spearman's rho correlation was used to find the relationship between categorical and metric variables.

5. RESULTS AND DISCUSSION

The results section comprise demographic variables of the respondents, usage frequency, factors affecting usage and reasons for non-usage of digital financial products and services.

5.1 Demographic Variables

This study has considered the following as core demographic variables such as gender, age, educational qualification, income and area of residence. The demographic variables with high percentage comprise

that 66.7 percent of the respondents are male (200 respondents out of 300), 25.7 percent are between the age group of 18 and 25 (77 respondents), 28 percent are qualified upto school level (84 respondents), 39.7 percent draws monthly income between ₹5,001 and ₹15,000 (119 respondents), and 66 percent are resided in semi-urban region (198 respondents).

5.2. Usage Frequency of Digital Financial Products and Services

Spearman's rho correlation was used to know the relationship between demographic variables and frequency of using digital financial products and services. The result is depicted in Table 1.

Table 1
Spearman's rho Correlation

<i>Variables</i>		<i>ATM</i>	<i>Internet Banking</i>	<i>Mobile Banking</i>	<i>Financial Service Kiosk</i>	<i>NEFT</i>	<i>RTGS</i>	<i>IMPS</i>
Gender	r_s	0.479	0.511	0.305	0.130	0.261	0.060	-0.065
	Sig.	0.000	0.000	0.000	0.024	0.000	0.297	0.262
Age	r_s	0.105	0.782	0.913	0.395	0.790	0.817	0.740
	Sig.	0.071	0.000	0.000	0.000	0.000	0.000	0.000
Educational Qualification	r_s	0.114	0.340	0.134	0.155	0.303	0.013	-0.116
	Sig.	0.059	0.000	0.020	0.007	0.000	0.824	0.056
Income	r_s	0.280	0.820	0.734	0.611	0.599	0.494	0.379
	Sig.	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Area of Residence	r_s	0.646	0.584	0.536	0.321	0.297	0.136	0.032
	Sig.	0.000	0.000	0.000	0.000	0.000	0.019	0.586
N of each variable		300	300	300	300	300	300	300

Source: Primary Data Compilation; r_s = Correlation Coefficient

In Table 1, there is a positive association of gender with ATM ($r_s = 0.479, p = 0.000$), internet banking ($r_s = 0.511, p = 0.000$), mobile banking ($r_s = 0.305, p = 0.000$), financial service kiosk ($r_s = 0.130, p = 0.024$) and NEFT ($r_s = 0.060, p = 0.000$). Gender has no relationship with RTGS ($r_s = 0.060, p = 0.261$) and IMPS ($r_s = -0.065, p = 0.262$). Age has positive strong relationship with internet banking, mobile banking, kiosk, NEFT, RTGS and IMPS. Age and educational qualification have no relationship with ATM ($r_s = 0.105, p = 0.071$; $r_s = 0.114, p = 0.059$). All together in Table 1, a very strong positive relationship is identified between age and mobile banking ($r_s = 0.913, p = 0.000$), similarly, income and internet banking has very strong relationship ($r_s = 0.82, p = 0.000$).

5.3. Factors Affecting Access to Digital Financial Products and Services

From 300 respondents, only 26 percent (77 respondents from 300) are frequent users of digital financial products and services and they are digitally financially included. Respondents of 23.7 percent are occasional users and their response is illustrated in Table 2.

It is found from Table 2 that 39.4 percent respondents felt that their transactions are unsecured so that they do not frequently use digital mode for financial transactions. Likewise, offering superfluous products and services is another factor that reduces the frequency of usage, which is 36.6 percent.

Table 2
Factors affecting access to digital mode

<i>Particulars</i>	<i>Frequency</i>	<i>Percent</i>
Concerned about safety and security	28	39.4
Products and Services are Superfluous	26	36.6
Lack of money to Save	9	12.7
Lack of Interest to use	5	7.1
Non-Transparent Transaction charges	3	4.2
Total	71	100.0

Source: Primary Data

5.4. Reasons for Non-usage of Digital Financial Products and Services

On an average, 50.3 percent of the respondents (151 respondents from 300) are non-users of digital financial products and services and the reason for non-usage are illustrated in Table 3.

Table 3
Factors for non-usage of digital mode

	<i>Frequency</i>	<i>Percent</i>
Lack of Knowledge on Digital Products and Services	40	26.5
Comfortable to use traditional method	29	19.2
Lack of Frequent Income	50	33.1
High Internet Charges	9	6.0
Complex Technology	23	15.2
Total	151	100.0

Source: Primary Data

Among the factors for non-usage of digital financial products and services, lack of frequent income was found to be the major reason with high percent of 33.1. Lack of knowledge on digital products and services was the second highest with 26.5 percent.

6. CONCLUSION AND SCOPE FOR FURTHER RESEARCH

Digital platform to access and use financial products and services has lessened the time of transaction to bankers and customers at great extent. But, huge population of India consists of lower-middle income group, which cannot afford the cost levied for digital banking. For instance, ₹20 is charged from fifth transaction in ATMs, which is 1/5th of the cost for most of people in India, who withdraw ₹100 only. It is the duty of the government to reduce cost and procedures to access, so that it will facilitate vulnerable such as old age people, women and illiterates and bring them into financial inclusion policy.

References

Buckley RP, Malady L. Building consumer demand for digital financial services—the new regulatory frontier. *Journal of Financial Perspectives*. 2015;3(3):122-37.

- Cochran WG. Sampling techniques. 1977. New York: John Wiley and Sons. 1977.
- Dougherty J, Dogandjieva R. The Elephant in the Room: Financial Inclusion for the Missing Middle. *innovations*. 2015 Nov 16;10(1-2):147-62.
- Gopalan S, Kikuchi T, editors. Financial Inclusion in Asia: Issues and Policy Concerns. Springer; 2016 Oct 12.
- Kumar K, Muhota K. Can Digital Footprints Lead to Greater Financial Inclusion?. The World Bank; 2012 Jul.
- Peric, K. (2015). Digital financial inclusion. *Journal of Payments Strategy & Systems*, 9(3), 212-214.
- Radcliffe D, Voorhies R. A Digital Pathway to Financial Inclusion. Available at SSRN 2186926. 2012 Dec 11.
- Rathi, V. (2016). India amidst Digital Banking and Financial Inclusion—A Review. *International Journal of Management and Social Sciences (IJMSS)*, 6(1), 24-28.
- Rojas-Suárez L. Financial Inclusion in Latin America, 2016.
- Sharma, A. M, Merger of ICT & financial inclusion: an embodying opportunity for Indian economic development, *Pristine International Journal of Management Research (PIJMR)*. 2016; I (1): 11-24.
- Winn JK. Mobile Payments and Financial Inclusion: Kenya, Brazil and India as Case Studies. University of Washington School of Law Research Paper. 2015 Sep 2(2015-29).
- Yawe B, Prabhu J. Innovation and financial inclusion: A review of the literature. *Journal of Payments Strategy & Systems*. 2015 Sep 1;9(3):215-28.
- Zhou W, Arner DW, Buckley RP. Regulation of Digital Financial Services in China: Last Mover or First Mover?. Available at SSRN 2660050. 2015 Sep.